

Message Text

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61

ACTION ARA-10

INFO OCT-01 ISO-00 AID-05 CIAE-00 COME-00 EB-07 FRB-01

INR-07 NSAE-00 RSC-01 TRSE-00 XMB-04 OPIC-06 SP-02

CIEP-02 LAB-04 SIL-01 OMB-01 STR-04 TAR-01 INT-05

/062 W

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R 061800Z DEC 74

FM AMEMBASSY LIMA

TO SECSTATE WASHDC 3056

INFO AMEMBASSY BOGOTA

AMEMBASSY CARACAS

AMEMBASSY LA PAZ

AMEMBASSY QUITO

AMEMBASSY SANTIAGO

UNCLAS LIMA 10338

CARACAS FOR CRISLER AID-W

EO 11652 N/A

TAGS: ECIN, EIND

SUBJECT: ANDEAN PACT: STATUS OF METAL-WORKING INDUSTRY
PROGRAM

REF: A. STATE 266290 NOTAL

B. LIMA A-231, 7/5/72

1. THE METAL-WORKING INDUSTRY SECTORAL PROGARM WAS APPROVED AS DECISION 57 ON AUGUST 20, 1972 (REFAIR B). IT COVERS A WIDE RANGE OF CAPITAL GOODS AND OTHER METAL PRODUCTS WITH EXCEPTION OF THE AUTOMOTIVE AND STEEL INDUSTRIES. THE INCORPORATION OF DECISION 57 INTO NATIONAL TARIFF AND LEGAL STURCTURES WAS SOMEWHAT SLOW: PERU (SEPTEMBER 72); ECUADOR (MAY 73); COLOMBIA (SEPTEMBER 73); CHILE (MARCH 74); BOLICIA HAS NOT YET FORMALLY APPROVED DECISION 57. VENEZUELA IS NOT YET INCLUDED IN THE PROGRAM.

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2. ABOUT 200 PRODUCTS WERE ASSIGNED TO ONE OR MORE OF THE FIVE COUNTRIES. SIXTY OF THESE WERE ALREADY IN PRODUCTION, ALL OF THEM IN THE PRIVATE SECTOR. WITH THE ELIMINATION OF INTRA-ANDEAN TARIFFS IN FAVOR OF COUNTRIES OF ASSIGNMENT, AND WITH APPLICATION OF COMMON EXTERNAL TARIFFS, SOME TRADE BEGAN TO DEVELOP. CENTRIFUGAL PUMPS ARE SHIPPED FROM PERU TO ECUADOR, CESSNA AIRPLANES AND METAL TOYS ARE SOLD FROM COLOMBIA TO PERU, ETC.

3. DECISION 57 CALLED FOR FEASIBILITY STUDIES FOR NEW PROJECTS OR FOR NECESSARY EXPANSIONS BY AUGUST 20, 1974, IN THE CASE OF CHILE, COLOMBIA AND PERU AND BY AUGUST 20, 1975, IN THE CASE OF BOLIVIA AND ECUADOR. THE RESPECTIVE PLANTS WILL HAVE TO BE IN PRODUCTION WITHIN THREE YEARS OF THESE DATES. ACCORDING TO THE JUNTA, OVER 70 FEASIBILITY STUDIES HAVE ALREADY BEEN PRESENTED. SOME COVER MORE THAN ONE PRODUCT AND SOME ARE FOR EXPANSION OF EXISTING PLANTS.

4. OF FEASIBILITY STUDIES PRESENTED TO DATE, ALL COLOMBIAN, ECUADOREAN AND BOLIVIAN STUDIES ARE FOR THE PRIVATE SECTOR. ABOUT TWO-THIRDS OF PERUVIAN STUDIES WERE FINANCED BY COFIDE FOR THE SOCIAL PROPERTY SECTOR. IN CHILE MOST STUDIES WERE MADE BY PRIVATE SECTOR, SOME BY CORFO.

5. AS ASSESSMENT OF THE FEASIBILITY STUDIES HAS NOT YET BEEN MADE. HOWEVER, IN THE CASE OF PERU, OVER HALF OF THESE PROVED TO BE NEGATIVE. THERE SEEM TO BE RELATIVELY FEW PROJECTS WITH A HIGH PROSPECTIVE RATE OF RETURN. IN THE SECOND PHASE OF THIS PROGRAM, FOR THE INCORPORATION OF VENEZUELA, MANY ASSIGNMENTS MAY BE RENEGOTIATED. ACCORDING TO CAF PROMOTION OFFICER IN LIMA, PERU WOULD, FOR EXAMPLE, GLADLY LET VENEZUELA MANUFACTURE GASOLINE PUMPS. ON THE OTHER HAND, INVESTMENTS ARE ALREADY BEING MADE IN SOME OF THE MORE PROMISING PROJECTS.

6. THE IMPLEMENTATION OF DECISION 57 DEMONSTRATES THE DIFFICULTY OF THE INTEGRATION PROCESS. SUCH FACTORS AS EXPORT FINANCING, ESTABLISHMENT OF MARKETING OUTLETS AND TRANSPORT COSTS HAVE BEEN MORE OF A PROBLEM THAN ANTICIPATED, AND HAVE SOMETIMES TENDED TO CANCEL OUT THE TARIFF

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ADVANTAGES.
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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: METAL INDUSTRY, PROGRAMS (PROJECTS)
Control Number: n/a
Copy: SINGLE
Draft Date: 06 DEC 1974
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: n/a
Disposition Approved on Date:
Disposition Authority: n/a
Disposition Case Number: n/a
Disposition Comment:
Disposition Date: 01 JAN 1960
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1974LIMA10338
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: D740355-0429
From: LIMA
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1974/newtext/t19741255/aaaabuxe.tel
Line Count: 109
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION ARA
Original Classification: UNCLASSIFIED
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 2
Previous Channel Indicators: n/a
Previous Classification: n/a
Previous Handling Restrictions: n/a
Reference: A. STATE 266290 NOTAL
Review Action: RELEASED, APPROVED
Review Authority: MorefiRH
Review Comment: n/a
Review Content Flags:
Review Date: 03 OCT 2002
Review Event:
Review Exemptions: n/a
Review History: RELEASED <03 OCT 2002 by ReddocGW>; APPROVED <06 FEB 2003 by MorefiRH>
Review Markings:

Declassified/Released
US Department of State
EO Systematic Review
30 JUN 2005

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: ANDEAN PACT: STATUS OF METAL-WORKING INDUSTRY PROGRAM
TAGS: ECIN, EIND, XM, PE, ANDEAN PACT
To: STATE
Type: TE
Markings: Declassified/Released US Department of State EO Systematic Review 30 JUN 2005